INDIANA COMMISSION *for* HIGHER EDUCATION

2015-17 Postsecondary Education Budget Recommendation

November 13, 2014

TIMELINE (2014):

- Spring: Commission votes to maintain performance metrics
- Spring: Commission votes for each per-unit output payment to remain flat from 2013-15 biennium
- Summer: Commission votes to increase performance funding from 6% of operating in FY2015 to 7% in FY2016 and 8% in FY2017
- Summer: Commission's Budget and Productivity committee meets to discuss performance outputs and budget recommendation development; committee reports out to full Commission during each Commission meeting
- October: staff presents budget recommendation to both subcommittee and full Commission – both groups are supportive of staff recommendations

COMPONENTS OF HIGHER EDUCATION BUDGET

- **Operating -** largest portion of the higher education funding, direct state support to institutions (69% of total higher education recommendation for FY16)
- **Student Financial Aid -** state tuition and fee support to students attending postsecondary institutions in Indiana (17%)
- **Debt Service –** state support for academic/administrative buildings bonded through student fees (9%)
- **Institution Line Items –** specific line items housed within institutions for programs and services outside of the general institution operations (3%)
- **Repair and Rehabilitation –** state support for the maintenance and upkeep of academic/administrative buildings (2%)
- **Other Higher Education Line Items –** state support for higher education functions such as: CHE, Medical Education Board, leases, Statewide Transfer Website (<1%)

OPERATING RECOMMENDATION

- Performance Funding - create pool of performance funds to be distributed by intuitional performance outputs using 4% reallocation of base funds and 3.23% new funding in FY2016 and 5% reallocation and 3.26% new in FY2017.
- Fund IU School of Medicine with flat increase based on the average operating increase of the 16 general academic campuses
- Funding per FTE – of the 16 campuses all campus's funding per-FTE increases in this scenario with the exception of the two currently highest funded per-FTE institutions.

STATE FINANCIAL AID SUPPORT RECOMMENDATION

- Fund the capped state financial aid programs at flat levels from the last biennium. This includes the Frank O'Bannon Grant, EARN Indiana, Minority Teacher Scholarship, Minority Student Teaching Stipend, High-Need Student Teaching Stipend, CVO and National Guard Supplement Grant.
- Adjust appropriation levels in National Guard and Frank O'Bannon to reflect a decoupling of the programs (this is an accounting change only).
- Add a $9 million per year appropriation for graduation grants for the Return and Complete project (see Career Council Strategic Objective 3.2).
- Replace the current subsidy for "high-demand, high-wage" jobs that exists in the part-time grant statute with newly created graduation grants for students in these fields (see Career Council Strategic Objective 3.1).
- Increase the resources available to independent students by allowing flexibility in financial aid funding so that dollars follow students to the grant pool for which they qualify.
- Address the substantial growth in the 21st Century Scholars entitlement liability via legislative action through one of the following strategies:
  - Increase the appropriation for the 21st Century Scholars fund
  - Repeal the language that grandfathered already-enrolled cohorts from the fiscal constraints passed in 2011

DEBT SERVICE RECOMMENDATION

- Fund current debt service ($142.4 million per FY)
- Fund university submitted priority one requests ($258 million; debt service per year $22 million).
- This assumption increases the overall higher education debt ratio from 10.4% in FY2015 to 11.1% in FY2016. In FY2017 the overall debt ratio falls back to 10.6% as current debt service is retired.

UNIVERSITY LINE ITEMS

- Fund previously existing line items (excluding USI $2 million, BSU $4.08 million, and IPFW $2 million which were rolled into FY2015 base funding)
- No newly requested line items recommended; newly requested line items were deemed to be general operating expenses and thus conflicted with performance funding
- Previously funded line items submitted with increases in excess of the 3.23% operating increases are funded with a max increase of 3.23% (excluding contracts for which the amount is known e.g., the Columbus Learning Center lease)
- Fund dual credit at $50 per credit hour, the same rate as last biennium, which results in a 77.5% increase in dollars from previous biennium ($6.4 million)
- BIF dedicated funds recommended at requested levels as no required exceeded the operating increase percent (excluding the statewide contract with the Midwest Higher Education Compact)

OTHER LINE ITEMS

- Cut CHE line items including CHE administration (-$90,352), Statewide Transfer (-$30,530), 21st Century Scholars Administration (-$56,996) by 3% from 2013-2015 funding levels

REPAIR & REHABILITATION RECOMMENDATION

- Fund repair and rehabilitation at .50% (matching 2013-2015 levels) reflecting an 11.5% increase overall ($6.5 million increase in dollars)

TOTAL BUDGET RECOMMEDATION

Based on the six components of the higher education budget, it is recommended to increase the higher education budget by $70,756,073 in FY2016 and $63,651,622 in FY2017. This constitutes a 3.9% increase from FY2015 to FY2016 and a 3.5% increase from FY2015 to FY2017.

If the legislature fully funds the 21st Century entitlement, expenses in this fund will increase by $54,087,449 in FY2016 and $39,777,845 in FY2017 representing a 45% increase in FY2016 and a 33.1% increase in FY2017 when comparing each to FY2015 appropriations. This will bring the yearly totals to $174,195,612 in FY2016 and $159,886,008 in FY2017.

The Commission directs staff to study, in consultation with state educational institutions, the feasibility of performance funding metrics to reward colleges and universities for acceleration, quality of education, and the labor market outcomes of their students. The study should include recommendations about whether any new metric should be differentiated according to the missions of state educational institutions.